DEPARTMENT OF DEFENSE

AGENCY-WIDE FINANCIAL STATEMENTS

FOOTNOTES TO THE PRINCIPAL STATEMENTS

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NOTES TO THE DEPARTMENT OF DEFENSE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and the records of DoD Agencies in accordance with DoD Financial Management Regulation (DoDFMR), as adopted from the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements." Consequently, these statements are different from the financial reports, also prepared by the DoD Agencies pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

These financial statements are prepared from a consolidation of accounting information reported from multiple field-level and departmental-level accounting systems. DoD Agency general ledger account balances have been verified to the year-end departmental budget execution reports. Other methods, to include feeder reports, must be used to verify the accuracy of general ledger balances in those instances where budget execution and expenditure reports do not contain the proprietary information - for example, "Government Furnished Property." Budget execution reports are prepared from field level reports that are certified for accuracy and completeness by the individual responsible for the allotment of funds.

B. Reporting Entity

The DoD was created on September 18, 1947, by the National Security Act of 1947. The overall mission of the DoD is to organize, train, and equip armed forces to deter aggression and if necessary, defeat aggressors of the United States and its allies. Fiscal year 1998 represents the third year the DoD will prepare and have audited DoD Agency-wide financial statements as required by the CFO Act and the GMRA. The reporting entities within the DoD have been changed to facilitate this new reporting requirement. Auditors will be issuing opinions on the financial statements of the following stand-alone reporting entities: (1) Army General Funds; (2) Navy General Funds; (3) Air Force General Funds; (4) Army Working Capital Fund; (5) Navy Working Capital Fund; (6) Air Force Working Capital Fund; (7) Defense Logistics Agency Working Capital Fund; (8) Defense Finance and Accounting Service Working Capital Fund; (9) Military Retirement Trust Fund; and (10) U.S. Army Corps of Engineers (Civil Works).

In addition to the 10 stand-alone reporting entities, the DoD agency-wide financial statements include the remaining DoD organizations. The financial information for these organizations is aggregated on the consolidating and combining statements in the columns identified as “Other Defense Organizations General Funds” and “Other Defense Organizations Working Capital Funds.” The Inspector General, DoD includes the financial records of these organizations in its audit plan for the DoD Agency-wide financial statements.

The accounts used to prepare the principal statements are categorized as entity/non-entity and by type of fund. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are resources that are held by an entity but are not available for use in operations.

The accompanying audited financial statements account for all funds for which the DoD is responsible except that information relative to classified assets, programs, and operations have been excluded from the statements or otherwise aggregated and reported in such a manner that the information is no longer classified. The federal financial accounting standards require use of the accrual basis of accounting for audited financial statements. Due to identified financial systems deficiencies, these statements do not meet the requirements for full accrual based accounting.

C. Budgets and Budgetary Accounting

Funds are distributed by appropriation directors to the entities responsible for accomplishing the diverse missions for which the DoD is responsible. As missions are performed, reporting entities record obligations and disbursements against the applicable appropriations. The DoD appropriations are divided into the general, working capital (revolving), trust, special and deposit funds. These accounts are used to fund and report how the resources have been used in the course of executing the DoD’s missions.

- **General funds** contain the bulk of Congressional appropriations, including personnel, operations, research and development, investment, and construction accounts.

- **Revolving funds** receive their initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders.

- The DoD expanded the use of businesslike financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. On December 11, 1996, the DBOF became the Defense **Working Capital Fund** (DWCFs). The DWCF (“the funds”) operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Funds build on revolving fund principles previously used for industrial and commercial-type activities. The DoD’s working capital funds include industrial and commercial type transactions, such as Supply Management and Distribution Depot fund.

They are composed of four divisions administered by the Department of the Army, Navy, Air Force and the Defense Agencies. These activities provide goods and services on a commercial-like basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

- **Trust funds** are used to record the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statue.

- **Special funds** are composed of receipts of the government that are earmarked for a specific purpose.

- **Deposit funds** generally are used to (1) hold assets for which the DoD acts as agent or custodian or whose distribution awaits legal determination or (2) accounts for unidentified remittances.

D. Basis of Accounting

Transactions are generally recorded on a budgetary basis, but are required to be reported (in the financial statements) on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability has been incurred, without regard to the actual receipt or payment of cash. Due to identified financial systems deficiencies, these statements do not meet the requirements for full accrual based accounting.

Budgetary accounting is accomplished through a unique set of self-balancing general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. The principal statements prepared by the Departments were prepared as consolidated statements net of intra-entity transactions. However, the OMB has deferred the requirement for consolidating statements for the Statement of Budgetary Resources and the Statement of Financing. For FY 1998, the Department will prepare combining statements for the Statement of Budgetary Resources and the Statement of Financing. Due to identified financial systems deficiencies, some of the Department's intra-entity transactions have not been identified and the corresponding eliminations have not been included.

E. Revenues and Other Financing Sources

The DoD receives the majority of funding required to support its programs and missions through Congressional appropriations. A financing source, "Appropriated Capital Used," is recognized each fiscal year to the extent that appropriated funds have been consumed. Purchases of capital items and accruals of unfunded liabilities are excluded from the "Appropriated Capital Used" account.

Appropriations are, when authorized, supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the DoD from other federal agencies or the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable process.

Other revenues and financing sources include donated revenue and inventory and other gains. Donations are recognized as a financial source upon acceptance of the donated asset. Revenue is recorded for the value of the increase to the asset accounts. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required. Therefore, an amount due from future financing sources (appropriations to be provided) is recognized as an offset to equity in the Balance Sheet.

F. Accounting for Intragovernmental Activities

The DoD, as an agency of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Department as though the agency were a stand-alone entity.

The DoD’s proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related interests costs are not apportioned to federal agencies. The DoD’s financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury Department does not allocate interest costs to the benefiting agencies.

The DoD’s civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while the military personnel are covered by the Military Retirement System (MRS). All are defined benefit plans. The DoD funds a portion of the civilian and military pension benefit obligations. The MRS assets, liabilities and net cost of operations are reflected in the Balance Sheet and Statement of Net Cost of the DoD Agency-wide financial statements. (There is also a separate Military Retirement Trust Fund Annual Financial report.) The unfunded actuarial liability for military post-retirement health benefits is also recognized in the DoD Agency-wide financial statements. The DoD is currently refining the techniques used to estimate military post-retirement health benefits. Civilian employee projected pension benefit obligation reporting is the responsibility of the Office of Personnel Management (OPM). The DoD recognizes imputed expenses for civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes imputed revenue for the civilian employee pensions and other retirement benefits funded by OPM in the

Statement of Changes in Net Position. The DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund financial statements.

The DoD contributes to Social Security for CSRS (Medicare) and FERS (Medicare and Federal Insurance Contributions Act) employees and to the Thrift Savings Plan for FERS employees. Such payments are accounted for as operating costs.

G. Funds with the U.S. Treasury and Cash

The DoD's funding resources are maintained in Treasury receipt and expenditure accounts. The Treasury Department records its cash receipts and disbursements, and the balance with the U.S. Treasury represents the aggregate of all DoD appropriations. Most federal agencies must rely on the Department of the Treasury to make disbursements and collections on their behalf and report amounts derived from Treasury records. The DoD, however, has authority to make disbursements and collections and report such amounts to Treasury.

The DoD traditionally reported on its financial statements amounts reported by the Treasury instead of the balance reflected in its DoD general ledger. Frequently, the account balances at the Treasury do not agree with the account balances on the DoD's financial records. To comply with the OUSD(C) "Alternative Methodology" policy, the account balances reported in these financial statements represent the balances in the Department's appropriation level financial records instead of the balances reported by Treasury. Any differences resulting from this change in reporting have been disclosed. See Note 2, "Fund Balance with Treasury."

Fund Balance with Treasury, as reported, is adjusted for the amount of undistributed disbursements and collections reported in the departmental expenditure systems. A corresponding adjustment is also processed to both accounts payable and accounts receivable respectively. These adjustments represent DoD's in-transit (undistributed) disbursements/ collections for transactions that have been reported by a disbursing station but not received and recorded by the appropriate accounting office.

DoD is an agent for the Department of the Treasury for cash on hand. Cash in the accounts of DoD officials was reported in the financial statements as "Cash and Other Monetary Assets." Other cash reported included imprest fund and undeposited collections. DoD disbursing officers maintain small on hand balances of foreign currencies when acting as an agent for the Treasury Department in overseas locations. These foreign currency balances are reported at the U.S. Dollar equivalent using the exchange rate in effect on the last day of the reporting period. See Note 3, "Cash, Foreign Currency, and Other Monetary Assets."

H. Foreign Currency

The DoD conducts a significant portion of its operations overseas. Gains and losses from foreign currency transactions for four general fund appropriations (operation and maintenance, military construction, family housing operation and maintenance, and family housing construction) are recognized and reported in the Other Programs figures on the Statement of Net Cost. The gains or losses are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year. For the remaining appropriations foreign currency fluctuations are dealt with by adjusting the initial obligation up or down as needed to match the exchange rate at the time of payment.

I. Accounts Receivable, Net

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other entities. Generally, allowances for uncollectible accounts are based on an analysis of collection experience by fund type. Accounts Receivable that were established under accounts that have been canceled are included in the DoD's financial statements where material. Material disclosures are provided in Note 5.

J. Loans Receivable

Loans are accounted for as a receivable after funds have been disbursed. The amount of loans obligated but not disbursed is disclosed in Note 7. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and U.S. Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

K. Inventory, Net

Inventory is recorded in the financial statements at the approximate historical cost in accordance with Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property." Inventory is valued at a standard price (sale price), which includes the purchase price, less cost recovery factors (commonly called surcharges) necessary to recover operating costs and anticipated inflation rate changes. Gains or losses that result from valuation changes for inventory are not recognized and reported in the Statement of Net Cost. Such gains or losses are, however, reflected in the inventory asset account in the Balance Sheet. See Note 8, "Inventory and Related Property, Net."

L. Investments in U.S. Government Securities

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment**.** The reporting entity's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities. They are usually held to maturity. See Note 4, "Investments, Net."

M. Property, Plant and Equipment (PP&E), Net

The Department, as encouraged by the Federal Accounting Standards Advisory Board (FASAB), elected to implement the Statement of Federal Financial Accounting Standard No. 11, "Amendments to Accounting for Property, Plant and Equipment--Definitional Changes," in FY 1998. As a result of that decision, the costs of National Defense PP&E are not reported on the Balance Sheet beginning in FY 1998. Any such previously reported costs have been charged to the Net Position of the Entity, and the adjustment is shown as a prior period adjustment. Information on National Defense PP&E is reported in the Required Supplemental Stewardship Information section.

General PP&E is valued at historical acquisition cost plus capitalized renovations or improvements. General PP&E assets are capitalized when the cost equals or exceeds the DoD capitalization threshold (currently $100,000) and have a useful life of two or more years. General PP&E other than land is depreciated consistent with the requirements in the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment." Depreciation is a new requirement for General Fund Activities in FY 1998. Depreciation of property and equipment is generally calculated on a straight-line basis. Due to identified property and financial systems deficiencies, these statements may not reflect accurate depreciation figures for all of the Department's depreciable assets

In some instances, equipment may be valued at latest acquisition cost. In other instances where original acquisition costs of General PP&E were not available, estimates have been used. Such estimates are based on either (1) the cost of similar assets at the time of acquisition or (2) the current cost of similar assets discounted for inflation to the time of acquisition.

Multi-use Heritage Assets are treated as General PP&E for reporting and accounting purposes. Acquisition costs of Multi-use Heritage Assets, and any capitalized renovations or improvements, are reported on the Balance Sheet and depreciated. Multi-use Heritage Assets are Heritage Assets that are used predominantly for government operations (e.g., The Pentagon).

For entities operating as business-type activities (working capital funds (WCF)), all PP&E is categorized as General PP&E, whether or not it meets the definition of a Stewardship Asset. General PP&E capitalized in FY 1993, FY 1994, and FY 1995 at lower acquisition cost thresholds ($15,000, $25,000, and $50,000 respectively) remains capitalized for WCF activities.

N. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

O. Leases

Generally, the Departments leases represent rental equipment, space, and operating facilities. The DoD owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country.

P. Contingencies

Contingent liabilities, related to past events or transactions, are recognized in the financial statements when payment(s) is probable and the amount(s) is reasonably measurable.

At any given time, the DoD may be a party to various legal and administrative actions, and claims brought against it. These relate primarily to tort claims resulting from aircraft, ship, and vehicle accidents, medical malpractice, property and environmental damages resulting from Departmental activities, and contract disputes.

Most legal actions, other than contract claims, to which the DoD may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either because payments under these statutes are limited to amounts well below the threshold of materiality for claims payable from the DoD's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the DoD's operations or financial position.

Q. Accrued Leave

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources**.**

R. Equity

Equity consists of unexpended appropriations and cumulative results of operation. Unexpended appropriations represent amounts of authority that are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

Cumulative result of operation represents the difference since inception of the activity between expenses and losses, and financing sources including appropriations, revenue, and gains. Beginning in FY 1998, this amount includes the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there will no longer be a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or precredit reform loans, or a separate negative amount shown for future funding requirements. Cumulative result of operations for working capital funds represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

S. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other facilities that are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the DoD continued uses of these properties until the treaties expire. These assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the DoD. In the event treaties or other agreements are terminated and use of foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the United States and the host country have been concluded. Operating expenses for overseas bases are included in the Statement of Net Cost.

T. Comparative Data

Comparative data for prior year have not been presented because this is the first year for which financial statements are prepared using the formats prescribed in Office of Management and Budget (OMB) Bulletin 97-01, *Form and Content of Agency Financial Statements*. In future years, comparative data will be presented to provide an understanding of changes in the financial position and operations of the DoD's reporting activities. On November 20, 1998, the OMB issued a Technical Amendment to OMB Bulletin 97-01, which omitted the requirement for comparative financial statements in the short term.

U. Undelivered Orders

The DoD establishes obligations for goods and services that have been ordered but not yet received (undelivered orders) and, thus, do not represent a liability for payment. The DoD has Undelivered Orders outstanding of $162.4 billion at the end of FY 1998.

V. Intragovernmental Eliminations

Accounting requirements issued by the Office of Management and Budget (OMB) place emphasis on eliminating the effects of trading between federal agencies. Consequently, reporting entities within the Department are required to eliminate the effects of transactions between organizational components within their agency and between their agency and other DoD Components. The most prevalent transactions within the Department occur between the operating appropriations and DWCF organizations and between host/tenant activities. At the consolidated DoD level, the Department must eliminate the effects of transactions between DoD agencies and other federal agencies.

In past years, the Department has assumed that if it could identify a specific dollar amount of sales by a DoD Component to another DoD Component or to another federal agency, then those activities should be reporting an equal amount of purchases. For reporting purposes, the selling activity has identified the dollar amount of sales or services rendered and provided the general ledger accounts for Accounts Receivable, Revenues, and Unearned Revenues. An equal amount of Accounts Payable, Expenses, and Advances has been presumed to be recorded on the accounting records of the purchasing activity. Because many current accounting systems do not have the capability to capture proprietary general ledger data by the source of funds (i.e., government versus nongovernment), the dollar amount of sales was determined based upon budgetary general ledger accounts reported in "Report on Reimbursements" (RCS: ACCT-RPT(M)725). A summary of transactions between DoD Components and other federal agencies (intragovernmental eliminations) are at Note 22 to these financial statements.

Federal-wide policies and procedures have not been issued that would guide federal agencies in the capture and reporting of elimination amounts for accounts receivable, accounts payable, revenue, expense, etc., at the agency, bureau, or fund symbol level. On November 20, 1998, the Office of Management and Budget issued a Technical Amendment to OMB Bulletin 97-01, *Form and Content of Agency Financial Statements* which replaced the Consolidated Statement of Budgetary Resources with a Combining Statement of Budgetary Resources to facilitate statement preparation. In line with that guidance, the Department has elected to prepare combining Statements of Budgetary Resources and Statement of Financing for FY 1998. As noted above, due to identified financial systems deficiencies, some of the Department's intra-entity transactions have not been identified and the corresponding eliminations have not been included.

Note 2. Fund Balances with Treasury
(Thousands)

This account represents the aggregate of all Defense appropriations reflected in the Departmental general ledger rather than amounts reported by Treasury. The schedule below identifies the status of the resources maintained in the Treasury accounts by fund type. Amounts that have been restricted by Congress, OMB, Treasury or DoD have been separately identified. Special, Deposit, and Receipt account balances have been consolidated into "Other Fund Types."

	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
A. Entity Fund and Account Balances:					
Unobligated Balance Available:					
Available	$143,146,922	$5,775,723	$24,481,113	$185,117	$173,588,875
Restricted	(4,704)	893,626	6,507,298	2,665	7,398,885
Reserve For Anticipated Resources	0	0	0	0	0
Obligated, Net	3,374,233	13,944,140	125,859,254	188,355	143,365,982
Unfunded Contract Authority	0	(12,162,226)	0	0	(12,162,226)
Unused Borrowing Authority	0	0	0	0	0
Other	(144,858,677)	0	(1,195)	(5,752)	(144,865,624)
Total Entity Treasury Balance	$1,657,774	$8,451,263	$156,846,470	$370,385	$167,325,892
B. Non-Entity Fund and Account Balance	0	0	$642	$195,614	$196,256

C. Other Information: Due to timing differences, all disbursements and collections made by other agencies on behalf of the DoD, and reported to the Treasury, are not included in the Department's appropriation level general ledger.

"Other Fund Types" represents Investment net of premiums and discounts reported by the Trust Funds. The "Other" line represents adjustments required in order to reconcile the Funds Balance with Treasury in the Financial Statements to the budgetary FMS 2108, "Year End Closing Statement."

Note 3. Cash, Foreign Currency and Other Monetary Assets
(Thousands)

	Entity Assets	Non-Entity Assets
A. Cash	$19,423	$480,851
B. Foreign Currency	0	19,094
C. Other Monetary Assets	0	0
D. Total Cash, Foreign Currency, and Other Monetary Assets	$19,423	$499,945

E. Other Information: Utilizing the Department of the Treasury Prevailing Rate of Exchange, the entities translate foreign currency to U.S. dollars. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

Note 4. Investments, Net

(Thousands)

	Cost	Amortization Method	Amortized Premium/ (Discount)	Investments Net	Other Adjs	Market Value Disclosure
A. Intragovernmental Securities						
Marketable	$3,217,899		$6,037	$3,223,936	0	$1,628,763
Non-Marketable Par Value	1,689,956		(85,025)	1,604,931	0	1,604,931
Non-Marketable Market Based	153,401,460	EI*	(7,771,497)	145,629,963	0	145,629,963
Subtotal	156,714,142		($7,850,485)	$148,863,657	0	$148,863,657
Accrued Interest	4,257,345					4,257,345
Total	$160,971,487					$153,121,002

D. Other Information: It is the intent of the entities to hold their trust fund investments to maturity unless they need to finance claims or otherwise sustain operations. Provisions are not made for unrealized gains or losses on these securities. The Trust Funds use the same method that conforms to the prevailing practice in the financial community to determine the amortized book value of investments currently held and the related Effective Interest yield on investments. These calculated yields match up with yields published in the security tables of U.S. Treasury securities. These types of investments are recorded at cost, and if applicable, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. In 1998, the DoD Military Retirement Trust Fund represents $146 billion of the Non-Marketable Market Based securities, the Navy General Gift Fund represents $9.8 million of the Non-Marketable Par Value securities, and the Army General Fund and the Air Force General Fund each represents $1 million in Marketable securities.

Note 5. Accounts Receivable, Net

(Thousands)

	Gross Amount Due	Allowance for Estimated Uncollectibles	Net Amount Due
A. Entity Receivables			
Intragovernmental	$3,456,443	N/A	$3,456,443
With the Public	7,112,200	115,181	6,997,019
B. Non-Entity Receivables			
Intragovernmental	436,539	N/A	436,539
With the Public	$194,716	$47,154	$147,562

C. Allowance Method Used: The method of calculating the allowance for estimated uncollectibles varies for each military department and Defense agency. For example, the allowance for uncollectible accounts, in some instances, is based on an analysis of collection experience by fund type for current and non-current receivable. In another case, the DoD allowance for entity public receivable is computed each year, based on the average percentage of write-offs to outstanding public accounts receivable for the last five years.

D. Other Information: Accounts Receivable represent all receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts. The accounts receivable value includes reimbursables and refund receivables such as out of service debts from former service members, contractor debt, and unused travel tickets. It also includes net interest receivable per Form and Content guidance. Variances identified as undistributed collections are prorated between intragovernmental and public receivables on the Balance Sheet.

The Account Receivable-Public includes a $1.4 billion advance payment made by the Navy to two contractors and a contract that was subsequently canceled. The contract is currently in litigation. Per recommendation from the 1994 General Accounting Office financial audit, the entire amount is reported as Account Receivable-Public.

The amount shown for Entity Receivables-Intragovernmental is net of $5.2 billion of intra-DoD eliminations.

Note 6. Other Assets
(Thousands)

A. Other Entity Assets

1. Intragovernmental	
Assets Returned for Credit	$107,479
Advances	179
Deferred Charges	169,011
Natural Resources	0
Other	(119,703)
Total Intragovernmental	$156,966
2. Other	
Advances	6,442,114
FFB Loan Principle APE	1,224,931
Fixed Assets Not in Use, Net	451,657
Items on Loan	9,008
Items due into storage	421
Inventory	191,710
Assets Awaiting Disposal	15,962
Deferred & Undistributed Items	7,723
Intangible Assets	903,100
Other Natural Resources	67,511
Other Assets	978,360
Total Other	$10,292,497

B. Other Information related to entity assets: Advances consist of payments for contractors, travel, prepays, and all other. The majority of the advances were reported by Navy's contractors ($2.9 billion) and Army's prepayments ($2 billion). The Department reports contract financing payments made to contractors under fixed price contract as advances.

Inventory consists of Reparable and Property Disposal Inventory reported by the DLA. Reparable Inventory represents $19.9 million of the acquisition value of industrial plant equipment that is currently warehoused by DoD. Property Disposal Inventory of $171.8 million is comprised of disposal items turned into Defense Reutilization and Marketing Service.

Eliminating entries of ($699) million are included in Other, Intragovernmental Line 1(e).

C. Other Non-entity Assets

Advances	$112,712
Active Items on Hands of Future Sale	69,280
Suspense Account Unserviceable	14,027
Other	0
Total Other	$196,019

D. Other Information related to non-entity assets: Line 2E on the balance sheet includes $112.8 million in advances to contractors as reported on SF 1219, Statement of Accountability. This amount is being reported for payments as part of an advance-payment pool agreement made with the Massachusetts Institute of Technology. Advance-payment pool agreements are used for the financing of cost-type contracts with nonprofit educational or research institutions for experimental, or research and development work, when several contracts or a series of contracts require financing by advance payments.

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers Not applicable.

Note 8. Inventory And Related Property

A. Inventory
(Thousands)

	Inventory Amount	Allowance for (Gains) Losses	Inventory Net	Valuation Method
Inventory Categories				
Held for Current Sale	$66,461,581	$23,474,848	$42,986,733	LAC
Held in Reserve for Future Sale	2,850,087	289,838	2,560,249	LAC
Excess Obsolete and Unserviceable	384,129	0	384,129	NRV
Held for Repair	12,852,919	2,186,355	10,666,564	
Total	$82,548,716	$25,951,041	$56,597,675	

Legend: Valuation Methods
LAC = Latest Acquisition Cost
NRV = Net Realizable Value (LAC less Estimated Repair Cost)

2. Restrictions on Inventory Use, Sale, or Disposition: Generally, there are no restrictions with regard to the use, sale, or disposition to applicable DoD activities. Inventory may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

3. Other Information: As of September 1998, the Departments carried the following inventories: Air Force WCF ($19.2 billion), Navy WCF ($14.7 billion), Army WCF ($10.4 billion), DLA WCF ($9.7 billion), Army General Funds ($1 billion), Other Defense Organization-Working Capital Fund ($306 million), Other Defense Organization-General Fund ($105 million), Corps of Engineer ($51 million), and Navy General Funds ($42 million). In addition, the Navy Working Capital Fund's War Reserve Material of $199 million is included on Line 1(b) and Work In Process of $1.2 billion in Line 1(d).

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. “Inventory Held for Current Sale” is that expected to be sold in the normal course of operations. “Inventory Held in Reserve for Future Sale” are those held because they not readily available in the market or because there is more than a remote chance they will eventually be needed. “Excess Inventory” is that which exceeds the demand expected in the normal course of operations and which does not meet management’s criteria to be held in reserve for future sale. “Obsolete Inventory” is that which is no longer needed due to changes in technology, laws, customs, or operations. “Unserviceable Inventory” is damaged inventory that is more economical to dispose of than repair. “Inventory Held for Repair” consists primarily of those items deemed Depot Level Reparables that need repair before they can be issued for re-use. Inventory Held for Current Sale and Inventory Held for Future Sale is valued at Latest Acquisition Cost with an allowance for unrealized gains or losses to result in an approximation of historical cost (Inventory, Net column). Inventory Held for Repair is valued at Latest Acquisition Cost with allowance accounts that net to an estimate of the inventory’s repair cost to result in an approximation of the inventory’s value prior to repair. Excess, obsolete, and unserviceable items are adjusted downward to approximate their net realizable value.

Volume 11B, Chapter 55, of the “DoD Financial Management Regulation” provides the criteria for distinguishing the inventory categories. Due to identified inventory and accounting systems deficiencies, these statements may not reflect accurately the value of the Department’s inventory.

B. Operating Materials and Supplies (OM&S)
(Thousands)

	OM&S Amount	Allowance for (Gains) Losses	OM&S, Net	Valuation Method
OM&S Categories:				
Held for Use	$36,948,547	$15,006	$36,933,541	LAC
Held in Reserve for Future Use	24,205,527	823	24,204,704	LAC
Excess, Obsolete and Unserviceable	1,335,621	0	1,335,621	NRV
Total	$62,489,695	$15,829	$62,473,866	

Legend: Valuation Methods
LAC = Latest Acquisition Cost
NRV = Net Realizable Value (LAC less Estimated Repair Cost)

2. Restrictions on OM&S Use, Sale, or Disposition: None.

3. Other Information: Operating Materials and Supplies (OM&S) should be valued at their historical cost or an approximation thereof. A method of deriving an approximation of historical cost is through the use of an allowance for unrealized gains or losses that is applied against the latest acquisition cost (LAC) or catalog price of OM&S. “Excess” OM&S are those that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future and that do not meet management’s criteria to be held in reserve for future use. “Obsolete” OM&S are those that are no longer needed due to changes in technology, laws, customs, or operations. "Unserviceable" OM&S are those that are physically damaged and cannot be consumed in operations. Operating materials and supplies reserved for future use consist primarily of $19 billion of "War Reserves" reported by the Army and $4.7 billion of Ammunition reported by the Navy. Due to identified logistics and accounting systems deficiencies, these statements may not reflect accurately the value of the Department's operating materials and supplies.

C. Stockpile Materials
(Thousands)

	Stockpile Materials Amount	Allowance for Losses	Stockpile Materials Net	Valuation Method
Stockpile Materials				
Held for Sale *	$1,267,154	$0	$1,267,157	O
Held in Reserve for Future Sale	1,791,028	0	1,791,028	
Total	$3,058,182	$0	$3,058,182	

Legend: Valuation Method
O = Other

**Not held for sale in the normal course of business*

2. Restrictions on Stockpile Use, Sale, or Disposition: The stockpile quantities are required to be sufficient to sustain the U.S. for a period of not less than three years during a national emergency, including a conventional global war of indefinite duration. The required stockpile levels can only be changed by law through a Presidential proposal in the Annual Material Plan submitted to the Congress.

Except for disposals made under the following situations, disposals cannot be made from the stockpile: (1) necessary upgrading, refining or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess and of potential financial loss if not disposed; (4) by order of the President and/or authorized by law.

3. Other Information: "Stockpile" materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. National Defense Stockpile reported $3.1 billion in stockpile materials with an estimated market value of $4.4 billion.

Note 8. Recap of Inventory and Other Related Property
(Thousands)

	Amount
Inventory, Net	$56,597,675
Operating Materials and Supplies, Net	62,473,866
Stockpile Materials, Net	3,058,182
Total	$122,129,723

Note 9. General PP&E, Net

(Thousands)

A. Major Classes of Assets	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Land	N/A	N/A	$7,766,959	N/A	$7,766,959
Structures, Facilities, and Leasehold Improvements	S/L	10 to 40	134,190,042	70,771,105	63,418,937
ADP Software	S/L	1 to 5	1,910,244	1,157,749	752,495
Equipment	S/L	1 to 5	54,287,442	20,375,468	33,911,974
Assets Under Capital Lease	S/L	1 to 5	168,568	77,326	91,242
Construction-in-Progress	N/A		20,251,004	N/A	20,251,004
Other			54,400	27,818	26,582
Total			$218,628,659	$92,409,466	$126,219,193

LEGEND

DEPRECIATION METHODS (Column 1)	RANGE OF SERVICE LIFE (Column 2)
SL = Straight Line	1 to 5 = one to five years
O = Other	10 to 40 = ten to forty years

B. Other Information: The Department, as encouraged by the Federal Accounting Standards Advisory Board (FASAB), elected to implement the Statement of Federal Financial Accounting Standard (SFFAS) No. 11, “Amendments to Accounting for Property, Plant and Equipment – Definitional Changes, in FY 1998,” in FY 1998. As a result, the costs of National Defense PP&E are not reported in the Balance Sheet. In addition, during FY 1998 the Department implemented the requirements of SFFAS No. 6 and removed from the Balance Sheet the costs of Heritage Assets and Stewardship Land.

Note 10. Debt

(Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
Debt to the Federal Financing Bank	1,164,026	(69,316)	1,094,710
Debt to Other Federal Agencies	144,051	(13,830)	130,221
A. Total Debt	$1,308,077	($83,146)	$1,224,931
Classification of Debt			
Intragovernmental Debt			$1,224,931

B. Other Information: The Navy WCF reported $1 billion of debt. This debt represents the Transportation activity group outstanding principal balance on the Afloat Pre-Positioning Force-Navy (APF-N) ships. The APF-N program, approved by Congress, provides ships for Time Charter to Military Sealift Command (MSC) to meet requirements not available in the marketplace. The ships are built/converted by private Interim Vessel Owners; using private, non-government financing obtained from various banking institutions. During the building/conversion phase, the government does not make payment. Upon delivery of each vessel to MSC for use under the lease agreement, the interim financing is replaced by permanent financing. The ships are financed with approximately 30 percent equity investments and 70 percent debt borrowing. The debt is in the form of loans, from the Federal Financing Bank (FFB), to the permanent vessel owners. The lease agreement requires MSC to make semi-annual payments to cover repayment of principal and interest on the FFB loans, and any equity payments due to the vessel owners.

The Other Federal Agencies debt represents a principal balance of $130.2 million left on the MSCs T-5 program reported by the Air Force WCF. This program also provides ships for time charter to MSC to meet requirements not available in the marketplace.

Note 11. Other Liabilities

A. Environmental Cleanup
(Thousands)

Environmental Cleanup Liabilities Not Covered By Budgetary Resources

	Noncurrent Liability	Current Liability	Total
With the Public			
Accrued Cleanup Costs	$33,334,217	$710,656	$34,044,873
Other Environmental Liabilities	0	111,000	111,000
Total	$33,334,217	$821,656	$34,155,873

B. Other Liabilities
(Thousands)

1. Other Liabilities Covered by Budgetary Resources:

	Noncurrent Liability	Current Liability	Total
Intragovernmental			
Advances from Others	$0	$2,293,849	$2,293,849
Deferred Credits	0	63,432	63,432
Deposit Funds and Suspense Account Liabilities	0	147,986	147,986
Other Liabilities	13,202	925,792	938,994
Resources Payable to Treasury	0	173,333	173,333
Total	$13,202	$3,604,392	$3,617,594
With the Public			
Accrued Funded Payroll and Benefits	$17,702	$6,657,917	$6,675,619
Advances from Others	0	565,268	565,268
Deferred Credits	0	4,498	4,498
Deposit Funds and Suspense Accoun	0	40,657	40,657
Other Liabilities	2,723,441	1,860,724	4,584,165
Total	$2,741,143	$9,129,064	$11,870,207

2. Other Information: Other Current Intragovernmental liability represents $605 million of Air Force WCF's Depot Maintenance progress billings and unearned revenue, and Supply Management's equipment capitalization. Other Noncurrent Liability represents $2.7 billion of Military Retirement Trust Fund's accrued entitlements benefits for military retirees and survivors. The major portion of the Accrued Funded Payroll and Benefits were submitted by three departments: the Army General Fund ($2.5 billion), the Navy General Funds ($1.4 billion), and the Air Force General Funds ($1.3 billion).

Other Current Intragovernmental liabilities are net of $699 million of intra-DoD liabilities that are eliminated during consolidation in accordance with federal accounting standards.

3. Other Liabilities not Covered by budgetary Resources:

	Noncurrent Liability	Current Liability	Total
Intragovernmental			
Accounts Payable - Cancelled Accounts	$0	$28,907	$28,907
Other Liabilities	510,764	1,035,529	1,546,293
Total	$510,764	$1,064,436	$1,575,200
With the Public			
Accounts Payable - Cancelled Accounts	$949	$18,262	$19,211
Accrued Unfunded Liabilities	29,000	2,328,839	2,357,839
Other Liabilities	2,925,540	1,405,244	4,330,784
Total	$2,955,489	$3,752,345	$6,707,834

4. Other Information: Other Current Intragovernmental liability includes $586 million of Air Force's unemployment benefit and voluntary separation incentive costs and $334 million of Army's Accrued Payroll-Fringe Benefits. Other non-current liability (public) represents $2.1 billion of Navy's accounts payable applicable to canceled accounts. Navy submitted $1 billion of current other liabilities (public) relating to accrued civilian and military leave, contract incentives, and judgment fund.

Certain DoD liabilities that will be paid in the future require the development of detailed cost estimates. The DoD is currently refining the techniques used to estimate, record, and report such liabilities.

Note 12. Leases
(Thousands)

ENTITY AS LESSEE:

1. Capital Leases:

a. Summary of Assets Under Capital Lease:

Land and Buildings	$167,535
Accumulated Amortization	$77,242

b. Description of Lease Arrangements: Section 801 Family Housing capital leases for privately owned housing leased by the Army.

c. Future Payments Due:

	Fiscal Year	Land and Buildings
	1998	$20,785
	1999	20,785
	2000	20,785
	2001	20,785
	2002	20,785
	After 5 Years	107,836
Total Future Lease Payments		$211,761
Less: Imputed Interest Executory Costs (eg, taxes)		(94,604)
Net Capital Lease Liability		$117,157

d. Liabilities Not Covered by Budgetary Resources $117,157

2. Operating Leases

a. Description of Lease Arrangements: Section 801 Family Housing capital leases for privately owned housing leased by the Army.

b. Future Payments Due

	Fiscal year	**Land and Buildings**
	1998	$16,369
	1999	16,369
	2000	16,369
	2001	16,369
	2002	16,369
	After 5 Years	81,580
Total Future Lease Payments		$163,425

3. Other Information: The current portion of the liability is $7.7 million. The noncurrent portion is $109 million.

Note 13. Pensions and Other Actuarial Liabilities

(Thousands)

Major Program Activities	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	Assets Available to Pay Benefits	Unfunded Actuarial Liability
A. Pensions and Health Benefits				
Military Retirement Pensions	$644,323,704	6.50%	$147,178,531	$497,145,173
Military Retirement Health Benefits	223,411,000	0.00%	0	223,411,000
B. Insurance/Annuity Programs				
Worker's Compensation	$1,102,631	5.60%	$0	$1,102,631
C. Other				
Worker's Compensation	$3,023,602	0.00%	$0	$3,023,602
FECA	1,542,924	0.00%	0	1,542,924
TERA	228	0.00%	0	228
VSIP	2,689,095	0.00%	945,651	1,743,444
DoD Education Benefits	789,278		629,429	159,849
Reserve Mobilization Income Insurance Fur	9,087		9,087	0
Total	$8,054,214		$1,584,167	$6,470,047
D. Total Lines A+B+C	$876,891,549		$148,762,698	$728,128,851

E. Other Information:

1. Actuarial Cost Method Used: Aggregate entry-age normal method.

2. Assumptions: The Military Retirement System is a single-employer, defined benefit plan. Administrative costs are not borne by the Trust Fund. Projected revenues, authorized by PL 98-94, will be paid into the Fund at the beginning of each fiscal year by the Secretary of the Treasury as certified by the Secretary of Defense. This permanent, indefinite appropriation, determined by the Board of Actuaries, represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of unfunded liabilities resulting from gains and losses since then. The annual interest rate is assumed to be 6.5 percent. The long-term inflation rate is assumed to be 3.5 percent; the long-term annual salary increase is assumed to be 4.0 percent. For fiscal years 1998 and 1999, the actual inflation rates of 2.1 percent and 1.3 percent, and the actual salary increases of 2.8 percent and 3.6 percent were used. Other assumptions, such as mortality and retirement rates, are developed from actual experience.

Note 14. Unexpended Appropriations
(Thousands)

A. Unexpended Appropriations:

(1) Unobligated,	
a. Available	$24,411,094
b. Unavailable	6,170,386
(2) Undelivered Orders	128,005,973
Total	$158,587,453

B. Other Information: Unexpended appropriations are the amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Certain unobligated balances are restricted for future use and are not available for current use. "Undelivered Orders" represents those goods and services that have not yet been received/performed. Multi-year appropriations remain available to the Departments for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed.

Note 15. Contingencies

In accordance with Public Law 101-510, the DoD canceled all merged year and expiring account appropriations. The DoD may still be responsible for obligations related to the canceled appropriations.

The DoD is responsible for costs associated with environmental cleanup. Navy estimates possible environmental cleanup costs at $5.2 billion for FY 98. The total estimated cost to the Air Force and Army to complete environmental cleanup is $4.8 billion and $23 billion, respectively. These liabilities have been included in the financial statements and are reflected in line 5.F. Environmental Cleanup as a part of Liabilities Not Covered by Budgetary Resources and in line 8 Cumulative Results of Operations in the Balance Sheet.

The DoD is subject to various torts and contractor claims. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding the likely outcome for specific claims or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote. Contingent liabilities, under the Tort Claims Act and Chapter 163, Title 10 U.S.C., can amount to $2,500 and on up to $100,000 respectively, per occurrence. Settlements in excess of these amounts are paid from the Treasury's Claims, Judgments and the Relief Acts Fund. Contractor claims are funded primarily from DoD appropriations. As of September 1998, Air Force, Navy, and Army's claims were approximately $8.2 billion, $1.9 billion, and $25 million, respectively.

It is uncertain that these claims will ever accrue to the DoD and thus are not reflected in the financial statements. In addition to the fact that many cases simply lack merit, most claims, even if successful, will not be paid from DoD accounts. Rather, judgments are ordinarily paid from the Treasury Judgment Fund. In many cases involving attorney fees, the amounts are not known until the last appeal is taken.

Army's potential liability for the Chemical Demolition, Non-Stockpile Program is $8.7 billion.

Obligation due outs represent customer requisitions which are back ordered by the Supply wholesale and retail outlets. Customer funds are obligated since back order releases will be made automatically. These customer's orders are covered by requisitions to the supply source in the item record. As of September 1998, Air Force WCF's Supply Management activity had recorded $2 billion in obligated due outs.

The DoD is currently refining the techniques used to estimate and report contingent liabilities.

NOTE 16. Footnote Disclosures Related to the Statements of Net Cost

Due to identified deficiencies in the Department accounting and feeder systems, the figures reported on the Statement of Net Cost may not reflect accurately actual accrued costs.

A. Cost of National Defense PP&E

The cost of National Defense PP&E is provided in the Required Supplemental Stewardship Information section.

B. Cost of Stewardship Assets: None. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets and the cost of acquiring stewardship land and any costs to prepare stewardship land for its intended use shall be recognized as a cost in the Statement of Net Cost in the period when it is incurred.

C. Stewardship Assets Transferred: None.

D. Exchange Revenue

Typically, DoD components receive the majority of funding required to support its programs through Congressional appropriations. However, when authorized, these are supplemented by revenues generated by sales of goods or services through the reimbursable process. These supplemental exchange revenues are recognized when they become realizable, that is, when the customers accounting entity acknowledges a claim against its resources, or the performing accounting entity has an enforceable claim.

E. Revenue and Expense Amounts for Foreign Military Sales (FMS) Program Procurements From Contractors

Amounts pertaining to FMS items provided by DoD contractors are not reported in the Statement of Net costs. In FY 1998, we estimate these amounts to be $11.2 billion. A Statement of Custodial Activity is provided which reports the amounts of cash receipts and disbursements of the FMS Trust Fund during the year.

F. Benefit Program Expenses
(Thousands)

Service Cost	$16,615,944
Period Interest on the Benefit Liability	$55,735,712
Prior (or Past Service Cost)	$0
Period Actuarial Gains or Losses	($26,132,300)

G. Gross Cost and Earned Revenue by Budget Functional Classification
(Thousands)

	Budget Function Code	Gross Cost	Earned Revenue	Net Cost
Department of Defense Military	051	$259,175,299	($5,372,239)	$264,547,538
Water Resources by US Army Corps of Engineers	301	6,955,258	2,584,075	4,371,183
Pollution Control and Abatement by US Army Corps of Engineers	304	171,330	9,982	161,348
Disability by DoD Military Retirement Trust Fund	602	33,842,108	37,771,030	(3,928,922)
Veterans Education, Training, and Rehabilitation by DoD Education Benefits Trust Fund	702	193,273	197,090	(3,817)
Total		$300,337,268	$35,189,938	$265,147,330

The gross cost and earned revenue figures for the DoD Military line are net of $93.2 billion of intra-DoD eliminating entries.

H. Imputed Expenses
(Thousands)

The Statement of Net Cost includes, in Line 1.A Program Cost - Intragovernmental, the following current fiscal year imputed expenses:

CSRS/FERS Retirement	$1,342,412
Health	1,383,672
Life Insurance	4,829
Total	$2,730,913

The total imputed expenses are understated by $200 million due to reporting difficulties.

Note 17. Deferred Maintenance on PP&E

A. Summary of Deferred Maintenance Amounts by Category of PP&E
(Thousands)

General PP&E	$35,889,642
National Defense PP&E	1,361,293
Heritage Assets	0
Stewardship Land	0
Total	$37,250,935

The deferred maintenance amounts reported in the above table were summarized from amounts reported by Department of the Army, Department of the Navy and Department of the Air Force. The deferred maintenance amounts were derived from and are consistent with the deferred maintenance amounts reflected in the Military Department's PP&E maintenance justification documents provided to the Congress as part of the DoD FY 2000 President's Budget submission. Specific deferred maintenance information pertaining to each category of PP&E follows.

The quantities of DoD held Heritage Assets are reported in the Required Supplemental Stewardship Information (RSSI). General information pertaining to the condition of Heritage Assets is contained in the RSSI reports. Although not reported separately above, the Department does have deferred maintenance on Multi-use Heritage Assets, which are Heritage Assets that are used predominantly for government operations (i.e., The Pentagon). The amount of deferred maintenance on DoD Multi-use Heritage Assets is included in the deferred maintenance amounts reported for General PP&E real property. Such amounts could not be presented separately for this year's report. The DoD does not have any material amount of deferred maintenance on other types of Heritage Assets.

The total number of acres of Stewardship Land held by the DoD is reported in the Required Supplemental Stewardship Information. The Departments does not have any material amount of deferred maintenance on Stewardship Land.

B. General PP&E Deferred Maintenance Amounts
(Thousands)

Real Property	
Buildings	$34,462,869
Structures	1,416,280
Land	10,493
Total Real Property	$35,889,642

Narrative Statement: General PP&E includes personal property and real property. DoD personal property is generally maintained in an operable condition; therefore, there is no material amount of deferred maintenance to report for personal property.

The DoD owns a tremendous amount of real property located both in the United States and worldwide. Annually, the Department spends hundreds of millions of dollars to maintain real property assets worldwide. The real property deferred maintenance amounts reported in the above table are consistent with the deferred maintenance amounts reported in the DoD FY 2000 President's Budget. The $36 billion total includes the Department of the Army's $28 billion estimate for all quality improvements, not just deferred maintenance, needed to bring facilities to Condition 1 reporting status. Real property deferred maintenance amounts are determined by the cost assessment survey method.

C. National Defense PP&E Deferred Maintenance Amounts
(Thousands)

Aircraft	$306,676
Ships	0
Missiles	101,058
Combat Vehicles	31,900
Other Weapons Systems	921,659
Total	$1,361,293

Narrative Statement: The quantities and investment in National Defense PP&E are reported in the RSSI. Information pertaining to the condition of the Department's National Defense PP&E is also reported in the RSSI reports.

The Department has established policy for material condition reporting for National Defense PP&E designated as mission-essential. Each Military Service has a program for identifying and correcting problems that adversely affect the material condition of its National Defense weapon systems and equipment. Quantitative goals are established by type, model, and series or mission, design, and series for aircraft and missiles; ships are categorized generically.

The Military Services compare condition information to established goals and evaluate it at frequent intervals to provide a quantitative and objective appraisal that indicates substandard areas requiring corrective action. Condition codes of fully mission-capable, partially mission-capable, mission-capable, non-mission-capable (NMC), NMC-maintenance, and NMC-supply apply to all systems or equipment except ships and submarines. Ship and submarine status reporting is provided by the casualty report procedures.

The deferred maintenance amounts reported in the above table are consistent with the amounts reported in the DoD FY 2000 President's Budget for the Depot Maintenance Program, and include amounts that were unfunded due to funding constraints (unfunded executable). In some cases, deferred maintenance amounts that were unfunded and unexecutable due to operational or other reasons also are reported. Consequently, the condition of the assets can vary tremendously, ranging from mission capable to operable in a degraded condition to not operable awaiting repair.

Note 18. Footnote Disclosures Related To The Statement Of Changes In Net Position

A. Prior Period Adjustments:
(Thousands)

Prior Period Adjustments	
Changes in Accounting Standards	($698,665,814)
Errors and Omission in Prior Year Accounting Reports	($32,375,737)
Other	($9,954,849)
Total	($740,996,400)

B. Other Information: Prior period adjustments were used to remove the value of October, 1997, PP&E designated by federal accounting standards as National Defense PP&E for the balance sheet. Those items are reported in the Stewardship Statement. Current year acquisitions of National Defense PP&E are expensed in accordance with the standards.

Air Force made a $31.4 billion adjustment to record accumulated depreciation for September 1997 depreciable assets. Depreciation, though required, had not been previously reported in the financial statements.

C. Other Disclosures to the Statement of Changes in Net Position: DoD recognizes imputed costs for the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employee Health Benefits Program (FEHB), and the Federal Employee Group Life Insurance (FEGLI). Imputed costs are included in the Statement of Changes in Net Position, Line 2.D. Refer to footnote 16.H. for distribution by category.

For FY 1998, net position consists only of unexpended appropriation and cumulative results of operations. Invested capital, future funding requirements and "other" lines have been consolidated into cumulative results of operations.

Note 19. Disclosures Related to the Statement of Budgetary Resources

(Thousands)

Net amount of Budgetary Resources Obligated for Undelivered Orders at the end of Period	$150,797,992
Available Borowing and Contract Authority at the End of Period	$12,159,372

Other Information: The Statement of Budgetary Resources is an image of the monthly Report on Budget Execution (SF 133). Currently, the various agencies financial general ledger systems are not designed to capture budgetary data; therefore this report is created from the SF 133. Transfers In (Out) reported in the SF 133 consist only of cash transfers. The spending authority from offsetting collections during the period of execution is based upon the approved president's budget estimate of anticipated customer orders. During the fiscal year, actual orders received could potentially exceed the estimated orders that create negative anticipated orders for the rest of the year. At September, the actual customer orders are used to populate this line on the SF 133 since actual execution experience replaces the estimated value. Total outlays reported on the SF 133 includes undistributed disbursements and collections and agrees with the Fund Balance with Treasury as provided in the FMS 2108.

Reconciling differences between the Statement of Budgetary Resources and the SF 133 occurred as a result of reporting responsibilities: (1) agencies that receive transfer appropriations from other agencies must report an Adjusted Trial Balance (ATB) for each Treasury appropriation they receive as well as transfer funds that they receive from other agencies. Since the CFO statements must reconcile to the ATBs, transfer appropriation data are included in the Statement of Budgetary Resources. The submission of the SF 133 is the responsibility of the parent agency rather than the receiving agency. Consequently, there are no SF 133s for comparison purposes; (2) the Statement of Budgetary Resources includes revolving fund activity for the Corps of Engineers. However, the DFAS submits the SF 133 for revolving funds, and (3) the Corps of Engineers submits the SF 133 for the Coastal Wetlands Restoration Trust Fund, but the Department of Transportation is the lead agency for reporting the CFO statements and the ATB for the Coastal Wetlands Restoration Trust Fund.

Note 20. Footnote Disclosures Related to the Statement of Financing

Transfers In (Out) consist of cash and property transfers. Property transfers were included in the Working Capital Fund's Statement of Changes in Net Position. The Statement of Budgetary Resources uses the SF 133 that only includes cash transfers.

Note 21. Footnote Disclosures Related to the Statement of Custodial Activity

In FY 1998, the Foreign Military Sales Trust Fund disclosed disbursements ($14.1 billion) and collections ($14.1 billion) for foreign customers.

Note 22. Inter-Agency Eliminations
(Thousands)

The eliminations disclose the amount of DoD intergovernmental sales to other federal agencies. Part A. discloses the total elimination effect of entity sales of goods or services to other federal agencies by Accounts Receivable, Revenues, and Unearned Revenues for the Army General Fund (GF), Army Working Capital Fund (WCF), Navy (GF), Navy (WCF), Air Force (GF), Air Force (WCF), DLA (WCF), Defense Finance and Accounting Service (WCF), DoD Military Retirement Trust Fund, and U.S. Army Corps of Engineers (USACE) reporting entities. Part B identifies the Federal agencies that purchased the goods or services identified in Part A.

The source of elimination amounts for DoD entities is the Report on Reimbursements, Accounting Report (M)725, or if available, proprietary general ledger accounts, or other financial information retrievals. Many current systems do not provide for the capture of the detail information required to identify all elimination transactions. The Department will use alternative query and data call methods until standard government-wide requirements are approved, issued, and implemented.

Note 22. Inter-Agency Eliminations

Part A. DoD Eliminations of Seller Activity With Other Federal Agencies Arrayed by DoD Entities	Treasury Index (T.I.) or T.I and Appropriation	Accounts Receivable With Other Federal Entities	Revenue With Other Federal Entities	Unearned Revenue From Other Federal Entities
Funds	21	$709,744	$276,264	$153,993
Funds	17	133,394	286,418	0
Funds	57	358,362	771,879	99,526
Department of the Army, WCF	97X4930.01	52,263	9,592	317
Department of the Navy, WCF	97X4930.02	626,261	952,043	1,032,346
Department of the Air Force, WCF	97X4930.03	181,078	1,023,394	0
Defense Logistics Agency, WCF	)7X4930.05x)	90,803	243,351	133,520
Service, WCF	)7X4930.05x)	5,001	407	0
General Funds	97-xxxx	916,338	531,923	127,941
Other Defense Organizations, WCF	97X4930.04	0	0	0
	)7X4930.05x)	141,147	352,171	4
DoD Military Retirement Trust Fund	97-8097	0	12,234,182	0
U.S. Army Corps of Engineers	96	242,052	408,888	47,625
Total		$3,456,443	$17,090,512	$1,595,272

Part B. DoD Eliminations of Seller Activity Arrayed by Other Federal Agencies	Treasury Index	DoD Accounts Receivable Arrayed by Customer	DoD Revenue Arrayed by Customer	DoD Unearned Revenue by Customer
Executive Office of the President, Defense Security Assistance Agency	11	$297,787	$1,474,820	$2,234
Department of Agriculture	12	31,096	33,984	0
Department of Commerce	13	4,372	5,808	0
Department of the Interior	14	13,507	15,752	(536)
Department of Justice	15	65,004	87,026	157
Department of Labor	16	4,128	9,982	0
Department of State	19	9,146	9,576	577
Department of the Treasury	20	46,716	12,320,724	1,410
Office of Personnel Management	24	119	68	0
Nuclear Regulatory Commission	31	514	336	0
Department of Veterans Affairs	36	3,854	3,653	661
General Service Administration	47	128,589	187,850	296
National Science Foundation	49	251	4,272	0
Federal Emergency Management Agenc	58	16,714	33,783	0
Environmental Protection Agency	68	41,881	81,001	104
Department of Transportation	69	155,677	751,008	430
Agency for International Development	72	676	219	0
Small Business Administration	73	3,176	4,219	0
Department of Health and Human Servic	75	15,504	13,355	1,017
National Aeronautics and Space Adminis	80	68,666	412,188	847
Department of Housing and Urban Deve	86	1,583	697	0
Department of Energy	89	6,972	25,471	45
Department of Education	91	1,848	4,095	0
Social Security Administration	28	1,475	2,371	0
Unidentifiable Federal Agency Entity	00	2,513,168	1,540,510	1,588,030
Miscellaneous Identifiable Federal Agencies Not Required to Prepare CFO Audited Financial Statements	00	24,020	67,744	0
Total		$3,456,443	$17,090,512	$1,595,272

Note 23. Other Disclosures

A. Problem Disbursements: The elimination of Problem Disbursements is one of the highest financial management priorities of the Under Secretary of Defense (Comptroller). These disbursements represent payments made by an activity for another which have not been recorded in the accountable activity's records or precisely matched against the specific source obligation. As of September 30, 1998, the value of these disbursement transactions was $8.1 billion. Problem disbursements represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increase. Each entity continues to strive towards minimizing this problem.

B. Reporting: Fiscal year 1998 represents the first year that the DLA will prepare and provide DWCF stand-alone financial statements as required by the Chief Financial Officer's Act and the GMRA.

C. Canceled Balances: All unliquidated balances associated with the closed accounts have been canceled in accordance with Public Law 101-510. Canceled accrued expenditures unpaid are reflected in the financial statements as unfunded liabilities. Canceled undelivered orders outstanding are not included in the financial statements; however, these orders may result in future expenditures.